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Please be advised that comments on this paper should be directed to the working group via Jocelyn Rowe, ACVFA Executive Director at jrowe@usaid.gov

ACVFA Economic Growth Working Group

As defined by the F process, economic growth has three components: rapid, broad-based and sustainable. Under the matrix, the goal is to put countries on a trajectory when they no longer need foreign assistance. A major emphasis is on capacity building in various program areas. Programs vary by country and region, but there are over arching issues, such as sound monetary policy.

The Working Group has some concerns about economic growth goals. In many poor countries “rapid” growth may not be possible, and longer term programs, such as building private and public institutions are required. We see broad-based as meaning poverty reduction with a special attention to women and women entrepreneurs who are the vast majority of the poor. However, we think that there are adverse trends that focus more on export opportunities, such as fruit and vegetables, rather than staple crops, livestock, agro-tourism and rural SMEs for domestic markets that, in turn, reach the most rural poor. Urban food markets in Africa are expected to grow by \$100 to \$150 billion by 2030 compared to horticulture exports which are estimated to grow at about \$7 billion.

In our opinion, sustainability is a critical element. However, it is often defined as sustainable advocacy organizations, rather than service providers to rural SMEs.. The focus in sustainability should be on private sector drivers of growth, and sustainable private enterprises, all the time recognizing that many SMEs will fail under a functioning capitalist system.

While we strongly agree on the importance of macro-economic reforms and policies; we think that many of these program elements should be left to the IFC and multilateral agencies, and in some cases, Treasury. We see too many government reforms stymied by changes in ministries and governments, rather than addressing basic constraints such as those pointed out by DeSoto on land ownership and moving informal businesses into the formal sector.

We think that USAID has a major role to play in micro-economic reforms such as privatization support, legal and regulatory reform, corporate governance, and institutional reforms to build a better investment climate. We think USAID should focus more on firm level assistance, especially programs that directly help farmer organizations and rural and peri-urban SMEs.

Micro credit programs have been quite successful at poverty reduction, reaching millions in the informal economy. We believe it is now time to put more resources and attention behind growth-oriented SMEs that will promote broader based job creation and growth with a segment of businesses that will increasingly be part of the formal and tax paying economy.

Further, we encourage more programs that address the “poverty penalty” where those at the bottom of the economic pyramid pay more for basic needs and have difficulty in obtaining credit and growing their businesses. More affordable services can help the poor obtain safe drinking water, health care, transport, electricity and telecommunications. We encourage more innovative solutions in reaching low income people so that they develop their economic potential and accumulate assets, including use of new technologies like cell phones and debit cards, and public-private partnerships for basic services.

Currently, many “competitiveness” programs focus on the cluster approach. The working group believes that clusters have not been successful in generating results. Instead, we suggest more

focus on trade association development, rather than attempting to bring together disparate groups or individuals among many players in various sectors. Basically, economic growth should focus on the entrepreneur, firm level assistance, and sector specific trade associations as more likely to have lasting results.

We see too much top down “economic reform” efforts through technical assistance to government, rather than bottom up business advocacy. Too frequently, governments may institute reforms, but their capacity to implement them is very weak, and they result in reforms in name only. Business groups are better able to know what they need from government in terms of an enabling environment and corruption free supportive institutions.

We believe that USAID relies too heavily on contractors for its economic growth programs which are usually led by former USAID staff without direct business experience. We would like to see modifications in proposals that placed a greater emphasis on practical business experience than USAID knowledge or academic degrees. The most effective programs are led by Chief of Parties who have sound business experience and can learn quickly the ways to manage USAID resources and reporting requirements.

We think that the current USAID approach to economic growth tries to fit the same activities into all countries, no matter their level of development within the matrix. Too many current programs focus on exports and larger firms with an ability to get investment. Few of these programs filter down to lower income people. These types of economic programs are not appropriate for most of the “rebuilding states” and many of the “developing states” in the matrix that have had little ability to broadly enter into international markets. Export-oriented programs are more appropriate for sustaining partnerships with linkages to U.S. investment and trade.

For rebuilding states, we believe that USAID and development experts do not have a handle on how elites and warlords manage the economy in ways that maintain their monopolies on power. These groups benefit from conflict, and we do not have successful models for how to “democratize” economic development programs. We suggest more work on linkages between economic growth and democracy programs in such countries.

Given USAID management units and reliance on large contracts, smaller PVOs and cooperatives with specialized business knowledge are becoming less competitive. We believe that USAID is losing a major resource when so many of the projects are operated through large contracts to a few for profit companies. Current IQC and large contracting mechanisms discriminate against smaller PVOs, NGOs and specialized cooperatives. The choice is basically to fight over declining opportunities or change the basic mission of the organization to be able to compete for more generalized and larger contracts.

The World Bank’s 2007 World Development Report, entitled “Development and the Next Generation,” discusses how the youth bulge entering the work place in the next 10 years “must be better trained, supported and financed.” Unemployment and underemployment are already dangerously high for the under 30 cohort in most developing countries. Without investment and broad-based economic growth, there is no way to bring these rates down in countries where the numbers of people entering the job market is growing. Job creation has a “bonus” through increasing the tax roles and addressing social and political instability in most developing countries.

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